

## A Clear Message to Markets: BI's 50bps Hike Reasserts Independence

**Bank Indonesia (BI) decided to raise the BI Rate by 50 basis points to 5.25% (Cons: 5.00%, KBVS: 5.00%, Prev: 4.75%), delivering a hawkish surprise that signals a decisive shift toward a pro-stability monetary policy.** Simultaneously, BI also increased the Deposit Facility and Lending Facility rates by 50bps to 4.25% and 6.00%, respectively. The aggressive tightening reflects BI's urgent response to mounting pressure on the Rupiah, which has depreciated by 5.6% Ytd to IDR17,692/USD as of 19 May 2026. Through this move, BI reaffirmed its strong commitment to safeguarding currency stability, preserving global investor confidence, and reinforcing its institutional independence.

**BI stated that the primary trigger behind the rate hike was the material deterioration in the external environment alongside peak seasonal domestic FX demand.** Globally, the escalation of the Middle East conflict and the temporary closure of the Strait of Hormuz disrupted global supply chains, pushing Brent crude prices to as high as USD128/bbl in April 2026 before easing toward USD93/bbl. The energy shock has intensified global inflationary risks while simultaneously increasing downside risks to global economic growth. At the same time, heightened geopolitical uncertainty has accelerated global risk-off sentiment and triggered a broad flight to quality, as markets increasingly price in the possibility of further Fed rate hikes toward the end of 2026. Consequently, the UST 10Y yield climbed to 4.66%, accompanied by a more defensive stance across global equity markets.

**For Indonesia, these conditions have translated into sustained capital outflows across both fixed-income and equity markets,** with foreign outflows from government bonds reaching USD1.31bn and equity outflows totalling USD3.61bn Ytd as of 30 April 2026. Against this backdrop, it is understandable that BI's intensive "around the world, around the clock" interventions across the onshore spot, DNDF, and offshore NDF markets have not yet generated a sufficiently meaningful impact in stabilizing the Rupiah.

**Beyond foreign portfolio outflows, Rupiah pressure has also been heavily amplified by peak seasonal corporate USD demand** related to Hajj payments, dividend repatriation, and external debt servicing, all of which are concentrated during the Apr–Jun '26 period. In our view, this dynamic also contributed to the decline in Indonesia's FX reserves from USD156.47bn at end-2025 to USD146.20bn as of 30 Apr '26, despite the country continuing to record trade surpluses for 71 consecutive months, with cumulative trade surplus reaching USD5.56bn Ytd as of Mar '26.

**In our view, this latest BI Rate hike represents more than merely an effort to stabilize the Rupiah. It also serves as an important demonstration of BI's policy independence and institutional credibility.** Although BI's mandate under the revised P2SK Law has been expanded to include supporting economic growth alongside maintaining Rupiah and inflation stability, this latest policy action highlights BI's consistency in maintaining a forward-looking and disciplined monetary framework. The Governing Board delivered an unequivocal message to global markets that BI's stability mandate remains non-negotiable. We believe this display of policy autonomy is a critical reassurance that Indonesia continues to uphold rigorous monetary discipline despite evolving political dynamics.

**Although current inflation remains relatively benign, the 50bps hike should also be viewed as a pre-emptive measure against rising imported inflation risks.** Headline CPI moderated to 2.42% YoY in April 2026; however, persistently elevated global energy and commodity prices, particularly oil and LNG, continue to pose structural risks to domestic inflation. This is further compounded by Indonesia's reliance on imported staple commodities such as soybeans, wheat, sugar, and salt, as well as imported capital goods including machinery, electronics, chemicals, and plastics. In our assessment, sustained weakness in the Rupiah could eventually be transmitted into higher domestic production input costs and broader consumer prices across the economy. **Additionally, according to BI's internal stress-test models, the current policy tightening is necessary to anchor inflation firmly within BI's 2.5±1% target corridor throughout 2026–2027, supported by close coordination with national and regional inflation control teams (TPIP/TPID).**

### Market Implications and Strategic Outlook

**In the near term, the immediate market implication will be a broad repricing in yields, prompting tactical adjustments across both fixed-income and equity portfolios.** The 50bps rate hike will likely transmit rapidly into short-term money market rates, including INDONIA and JIBOR, while simultaneously pushing SBN yields higher and creating temporary mark-to-market pressure for existing bond portfolios. Equity markets, particularly rate-sensitive sectors such as banking and property — may also face modest valuation headwinds in the short run.

**Nevertheless, the medium-term outlook remains increasingly constructive.** Indonesia's real yield differential relative to emerging market peers has widened significantly, substantially enhancing the risk-adjusted attractiveness of SRBI and SBN instruments for global investors.

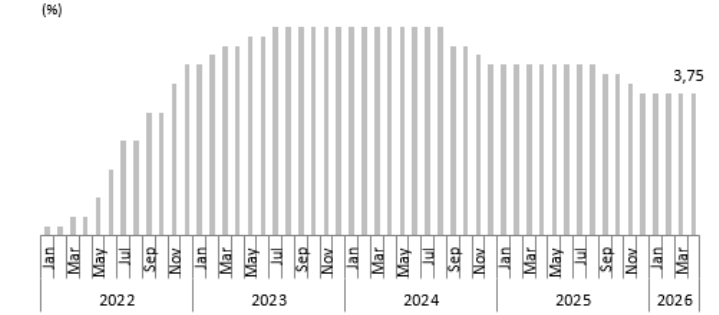
**Looking ahead, we believe BI has largely completed its heavy lifting, making the current 5.25% BI Rate likely the peak of this tightening cycle.** As such, the strategic outlook for the coming quarters will hinge on three key domestic and global triggers: (i) stabilization and gradual appreciation of the Rupiah as seasonal corporate FX demand fades toward July–August, (ii) sustained foreign net inflows into SBN and SRBI amid global yield-seeking allocation trends, and (iii) any meaningful geopolitical de-escalation in the Middle East that could permanently ease global energy and commodity price pressures.

Table 1. Interest Rate Data

Indicators	20-May-26		Monthly Changes (in bps)	Ytd Changes (in bps)
	Latest	M-1		
<b>Policy Rate (in %)</b>				
United States	3,75	3,75	0,0	(175,0)
European Union	2,15	2,15	0,0	(235,0)
United Kingdom	3,75	3,75	0,0	(150,0)
Japan	0,75	0,75	0,0	85,0
China	3,00	3,00	0,0	(45,0)
India	5,25	5,25	0,0	(125,0)
Thailand	1,00	1,00	0,0	(150,0)
Philippines	4,50	4,25	25,0	(200,0)
Indonesia	5,25	4,75	50,0	(75,0)
<b>Global Monetary Policy Change (in number of countries)</b>				
Easing	3	1		
Unchanged	15	22		
Tightening	5	1		

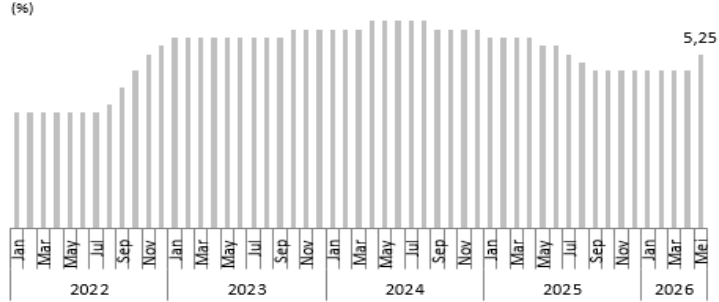
Sources: Each Central Bank and GlobalRates – treated (2026)

Fig 1. Fed Rate



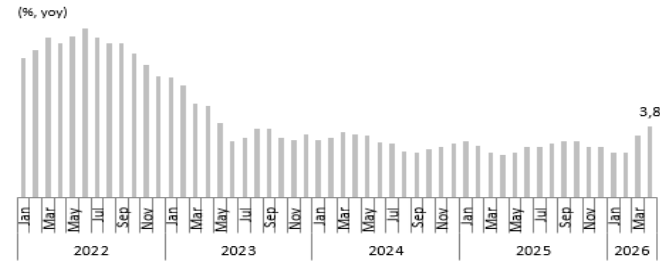
Source: The Fed – treated (2026)

Fig 2. BI Rate



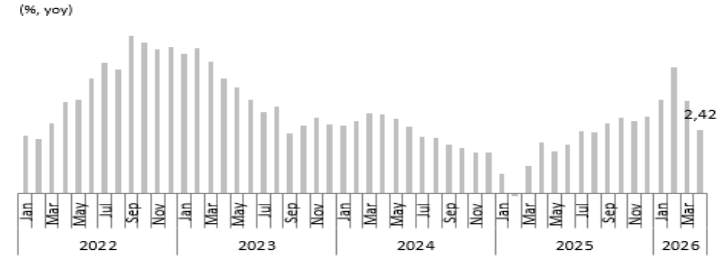
Source: Bank Indonesia – treated (2026)

Fig 3. US CPI Inflation



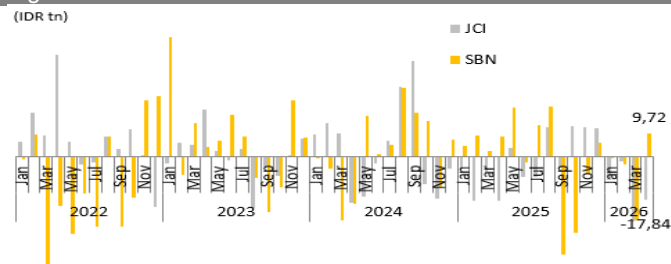
Source: US BLS – treated (2026)

Fig 4. Indonesia CPI Inflation



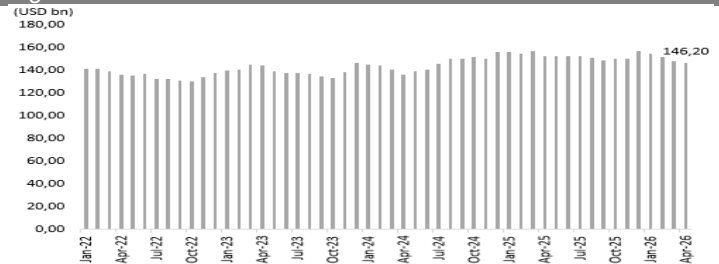
Source: BPS – treated (2026)

Fig 5. Indonesia Portfolio Flow



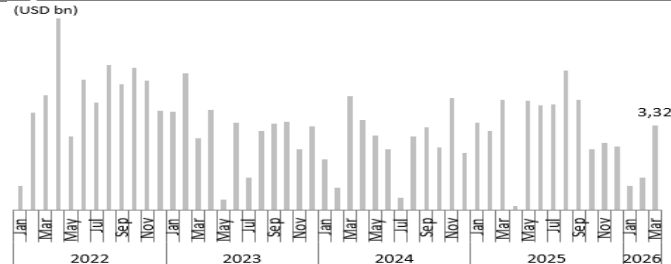
Source: Bloomberg – treated (2026)

Fig 6. Indonesia FX Reserves



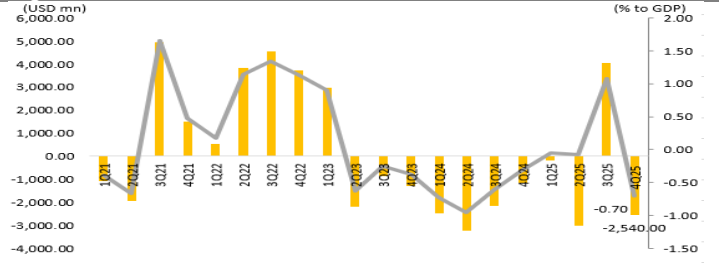
Source: BI – treated (2026)

Fig 7. Indonesia Trade Balance



Source: BI – treated (2026)

Fig 8. Indonesia Current Account



Source: BI – treated (2026)

**Table 2. Fed Rate Probabilities, as of 20 May '26**

MEETING DATE	325-350	350-375	375-400	400-425	425-450	450-475	475-500
17-Jun-26	3,3%	96,7%	0,0%	0,0%	0,0%	0,0%	0,0%
29-Jul-26	2,9%	84,7%	12,4%	0,0%	0,0%	0,0%	0,0%
16-Sep-26	2,4%	71,3%	24,3%	2,0%	0,0%	0,0%	0,0%
28-Oct-26	2,0%	59,9%	32,1%	5,7%	0,3%	0,0%	0,0%
09-Dec-26	1,4%	43,0%	40,2%	13,4%	1,9%	0,1%	0,0%
27-Jan-27	1,1%	33,9%	40,8%	19,2%	4,4%	0,5%	0,0%
17-Mar-27	0,8%	24,8%	38,9%	25,2%	8,5%	1,6%	0,2%
28-Apr-27	0,7%	20,7%	36,5%	27,6%	11,4%	2,8%	0,4%

Source: CME Group – treated (2026)

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